

Governor's FY 2016 Budget: Articles

Staff Presentation to the House Finance Committee
April 7, 2015

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Introduction – Article 11

- Section 3 – Distribution and Allocation of State Hotel Tax
- Sections 3, 4, and 8 – Expansion of Hotel Taxes
- Section 6 – Real Estate Conveyance/Controlling Interest
- Section 15 – State Property Tax

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Article 11, Sec. 3 – Hotel Tax Distribution and Allocation

- Hotel room rental subject to occupancy taxes:
 - Sales Tax – 7.0%
 - General Fund
 - State Hotel Tax – 5.0%
 - General Fund, municipalities, regional tourism districts, and Providence/Warwick CVB
 - Local Hotel Tax – 1.0%
 - Municipalities
 - Not impacted by Governor’s proposal

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Article 11, Sec. 3 – Hotel Tax Distribution and Allocation

- State has 4 Shared regional districts

South County

Charlestown
Coventry
East Greenwich
Exeter
Hopkinton
Narragansett
North Kingstown
Richmond
South Kingstown
West Greenwich
Westerly

Northern RI

Burrillville
Central Falls
Cumberland
Glocester
Lincoln
North Smithfield
Pawtucket
Smithfield
Woonsocket

Aquidneck Island

Barrington
Bristol
Jamestown
Little Compton
Middletown
Newport
Portsmouth
Warren

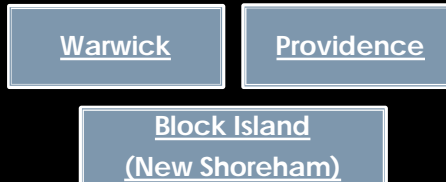
Statewide

Cranston
Foster
Johnston
North Providence
West Warwick

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Article 11, Sec. 3 – Hotel Tax Distribution and Allocation

- 3 municipalities have own districts



- Current law divides state into 8 districts
 - East Providence is unique case
 - Not in shared district
 - Division of Taxation holding district share until it joins district

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Article 11, Sec. 3 – Hotel Tax Distribution and Allocation

Room Rental from Hotel	
Room Charge	\$150.00
Sales Tax – General Fund	\$10.50
Hotel Tax – Multiple Recipients	\$7.50
Local Hotel Tax - Municipality	\$1.50
Total Charge to Occupant	\$169.50
Total Taxes Collected	\$19.50

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Article 11, Sec. 3 – Hotel Tax Distribution and Allocation

- Distribution – Current Law

Region	Districts	Prov./Wwck CVB	Cities & Towns	General Fund*
Warwick	31.0%	23.0%	25.0%	21.0%
Providence	31.0%	23.0%	25.0%	21.0%
Statewide*	[47.0%]	7.0%	25.0%	68.0%
Aquidneck Island	47.0%	7.0%	25.0%	21.0%
All Other	47.0%	7.0%	25.0%	21.0%

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Article 11, Sec. 3 – Hotel Tax Distribution and Allocation

- Example - \$150 Hotel Room
 - State 5.0% Hotel Tax - \$7.50

Region	Districts	Prov./Wwck CVB	Cities & Towns	General Fund*
Warwick	\$2.32	\$1.72	\$1.88	\$1.58
Providence	\$2.32	\$1.72	\$1.88	\$1.58
Statewide*	[\$3.52]	\$0.52	\$1.88	\$5.10
Aquidneck Island	\$3.52	\$0.52	\$1.88	\$1.58
All Other	\$3.52	\$0.52	\$1.88	\$1.58

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Article 11, Sec. 3 – Hotel Tax Distribution and Allocation

- FY 2016 Proposal – Fund state tourism and marketing campaign
 - Decreases shares for 6 of 7 districts
 - Aquidneck Island district left whole
 - General Fund share to Commerce Corp.
 - Budget includes \$5.5 million for state campaign
 - Increases Commerce Corp. share
 - Proportional to decreases to regional districts
 - Districts must incorporate state campaign to receive share

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Article 11, Sec. 3 – Hotel Tax Allocation and Distribution

- Proposed Distribution – FY 2016

Region	Districts	Prov./Wwck CVB	Cities & Towns	Commerce Corp.*
Warwick	15.0%	23.0%	25.0%	37.0%
Providence	15.0%	23.0%	25.0%	37.0%
Statewide	-	7.0%	25.0%	68.0%
Aquidneck Island	47.0%	7.0%	25.0%	21.0%
All Other	25.0%	7.0%	25.0%	43.0%

*General Fund share to Commerce Corporation

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Article 11, Sec. 3 – Hotel Tax Allocation and Distribution

- Proposal Example - \$150 Hotel Room

Region	Districts	Prov./Wwck CVB	Cities & Towns	Commerce Corp.*
Warwick	\$1.13	\$1.72	\$1.88	\$2.77
Providence	\$1.13	\$1.72	\$1.88	\$2.77
Statewide	-	\$0.52	\$1.88	\$5.10
Aquidneck Island	\$3.52	\$0.52	\$1.88	\$1.58
All Other	\$1.88	\$0.52	\$1.88	\$3.22

*General Fund share to Commerce Corporation

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Article 11, Sec. 3 – Hotel Tax Allocation and Distribution

- Gains and Losses - Proposal

Region	Districts	Prov./Wwck CVB	Cities & Towns	Commerce Corp.*
Warwick	\$(1.19)	-	-	\$1.19
Providence	\$(1.19)	-	-	\$1.19
Statewide	-	-	-	-
Aquidneck Island	-	-	-	-
All Other	\$(1.64)	-	-	\$1.64

*General Fund share to Commerce Corporation

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Article 11, Sec. 3 & 4 - Expansion of Hotel Taxes

- Current statutory definition of "hotel":
 - Facility offering minimum of 3 rooms for the public to rent and/or temporarily occupy
 - Period of 30 days or less
 - Includes hotels, motels, tourist homes, tourist camps, lodging houses, and inns
 - "Licensed"/permitted lodging facilities
- Current definition of "occupancy" excludes leases of 1 year or more

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Article 11, Sec. 3 & 4 - Expansion of Hotel Taxes

- FY 2016 proposal – Expands definition to include unlicensed lodging
 - Houses, condos, apartments, & other residential units
 - No minimum number of rooms or size of space for rent
 - Rentals through sites like Airbnb.com, Flipkey.com, Roomorama.com, Vacationrentals.com

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Article 11, Sec. 3 & 4 - Expansion of Hotel Taxes

- Proposal narrows definition of “occupancy”
 - Leases of 30+ consecutive days or at least 1 calendar month excluded
 - Not subject to occupancy taxes
- Rental of entire residential unit not subject to state hotel tax
 - Only subject to state sales and local hotel

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Article 11, Sec. 3 & 4 - Expansion of Hotel Taxes

- Defines hosting platforms
 - System that lets users offer all or part of residential unit for rent
 - Usually via a website (including Craigslist.org)
 - Municipalities cannot prohibit residents from using platforms/sites to offer rentals
 - Cannot prohibit platforms from providing means to reserve or pay for a rental
 - To avoid jurisdictional issues

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Article 11, Sec. 3 & 4 - Expansion of Hotel Taxes

- Administration submitted amendment making technical corrections/ reflecting intent
 - Rentals at small Bed & Breakfast facilities (less than 3 rooms) subject to taxes
 - Short-term rentals of vacation homes (through sites like VRBO.com) subject only to sales tax and local 1.0 percent hotel tax
 - Exempt from state 5.0 percent hotel tax.

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Article 11, Sec. 8 Room Resellers

- Room "Resellers"
 - Examples: Priceline.com, Hotwire.com, Expedia.com, Hotels.com
 - Different sales models
 - Merchant – purchase for resale
 - Commission or fee-based sales
 - "Auction"
 - All models include markup in price

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Article 11, Sec. 8 Room Resellers

- Current law – Markup not subject to sales and hotel taxes
- Governor’s Proposal would include markup in total room cost
 - Subject to all occupancy taxes
- If markup itemized, would be considered service – not subject to tax

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Article 11, Sec. 3 – Hotel Tax Distribution and Allocation

Room Rental from Hotel	
Room Charge	\$150.00
Sales Tax – General Fund	\$10.50
Hotel Tax – Multiple Recipients	\$7.50
Local Hotel Tax - Municipality	\$1.50
Total Charge to Occupant	\$169.50
Total Taxes Collected	\$19.50

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Article 11, Sec. 8 Room Resellers

	Current Law <i>Example 1</i>	Current Law <i>Example 2</i>
Initial Room Charge	\$120.00	\$110.00
Sales Tax	\$8.40	\$7.70
Hotel Tax	\$6.00	\$5.50
Local Hotel Tax	\$1.20	\$1.10
Initial Cost for Room	\$135.60	\$124.30
25% Markup	\$33.90	\$31.08
Taxes on Markup	-	-
Total Charge to Occupant	\$169.50	\$155.38
Total Taxes Collected	\$15.60	\$14.30

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Article 11, Sec. 8 Room Resellers

	Section 8 <i>Example 1</i>	Section 8 <i>Example 2</i>
Initial Room Charge	\$120.00	\$110.00
Sales Tax	\$8.40	\$7.70
Hotel Tax	\$6.00	\$5.50
Local Hotel Tax	\$1.20	\$1.10
Initial Cost for Room	\$135.60	\$124.30
25% Markup	\$33.90	\$31.08
Taxes on Markup	\$4.41	\$4.04
Total Charge to Occupant	\$173.91	\$159.42
Total Taxes Collected	\$20.01	\$18.34

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Article 11, Sec. 3, 4, & 8 – Expansion of Hotel Taxes

- Travel packages - Room rental bundled with other amenities or attractions sold through reseller
 - Total cost subject to sales and hotel taxes
- Tour operators & tour operator packages not subject to occupancy taxes
 - Tour operator packages – includes tour guide and 5+ days' itinerary

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Article 11, Sec. 3, 4, & 8 – Expansion of Hotel Taxes

- Governor Chafee's proposals – Not Approved
 - FY 2015 Budget
 - Include markup on resale
 - Include B&Bs
 - Subject to all occupancy taxes
 - FY 2013 Budget
 - Include B&Bs
 - Include vacation home rentals
 - Subject to all occupancy taxes

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Article 11, Sec. 3, 4, & 8 – Expansion of Hotel Taxes

Rental – All Booking Methods	7.0% State Sales Tax	5.0% State Hotel Tax	1.0% Local Hotel Tax
Hotel/Motel	X	X	X
B&B (3+ rooms)	X	X	X
B&B (≤ 3 rooms)	X	X	X
Hotel/Motel/B&B + other amenities	X	X	X
Tour Operator Services			
House/Condo/Apt. space (≤ 30 days)	X	X	X
House/Condo/Apt. space (31+ days)			
Entire House/Condo/Apt. (≤ 30 days)	X		X
Entire House/Condo/Apt. (31+ days)			

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Article 11, Sec. 3, 4, & 8 – Combined FY 2016 Impact

(In millions)	Sales Tax	Hotel Tax	Commerce Corp.	Tourism Districts	Cities & Towns
Hotel Tax Reallocation & Redistribution	\$ -	\$ (3.8)	\$ 6.0	\$ (2.2)	\$ -
Hotel Taxes Expansion - Small B&Bs and Unlicensed Lodgings	0.8	-	0.2	0.2	0.1
Hotel Taxes Expansion – Room Resale	0.7	-	0.2	0.3	0.2
Vacation Homes/Whole house rental	5.4	-	-	-	0.8
Combined Impact	\$ 6.9	\$ (3.8)	\$ 6.4	\$ (1.7)	\$ 1.0

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Article 11, Sec. 6 – Real Estate Conveyance/Controlling Interest

- Current law – Tax on sale of property
 - \$2.30 per \$500 of property value
 - Must be paid within 5 days of sale

Recipient	Tax Received
Housing Resources Commission	\$ 0.30
Distressed Community Relief Program	0.30
State General Fund	0.60
Municipality	1.10
Total	\$ 2.30

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Article 11, Sec. 6 – Real Estate Conveyance/Controlling Interest

- Current exclusion – Sale of controlling interest in business
 - When business is sold, property is effectively sold
 - Not subject to real estate conveyance tax
- Governor's Proposal – Ends exclusion via tax on sale of controlling interest
 - Mirrors conveyance tax
- FY 2016 Budget includes \$0.7 million
 - Based on Office of Revenue Analysis estimate

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Article 11, Sec. 15 – State Property Tax

- FY 2016 Proposal – Establish a state property tax on high value properties
 - \$2.50 per \$1,000 of total assessed value
 - Buildings and land
- Only certain properties taxed
 - Valued at \$1.0 million or more
 - Non-owner occupied
 - 5 or less units

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Article 11, Sec. 15 – State Property Tax

- Assessments from municipal tax rolls
 - Information to be shared with Division of Taxation
 - Likely via Division of Municipal Finance
- Notice to be sent to property owners by early August to include:
 - Reiteration of assessed value
 - Tax liability and methods of payment
 - Affidavit of residency

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Article 11, Sec. 15 – State Property Tax

- \$1.0 million threshold is a cliff
 - Taxed on entire value
 - Properties valued <\$999,999 not taxed
- Tax year July 1 through June 30
- Tax to be paid quarterly, by:
 - September 15
 - December 15
 - March 15
 - June 15

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Article 11, Sec. 15 – State Property Tax

- Residency must be proved to be exempted
 - Affidavit stating primary residence
 - Division of Taxation will confirm via records on file or request new information
 - Rental agreements or payments
 - Bank payments for residential expenses
 - Utility bills
 - Other records, per Division of Taxation

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Article 11, Sec. 15 – State Property Tax

- FY 2016 Budget includes \$11.8 million
 - 2,359 properties owned by non-residents
 - Total assessed value \$4,704.7 million

Municipality	Properties	Municipality	Properties
Barrington	17	Newport	217
Bristol	36	New Shoreham	423
Charlestown	193	North Kingstown	17
Jamestown	136	Portsmouth	96
Little Compton	222	South Kingstown	44
Middletown	64	Westerly	568
Narragansett	128	All Other	198

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